



STATEMENT OF

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REGARDING THE STATUS OF FINANCIAL MANAGEMENT AT THE
U.S. GENERAL SERVICES ADMINISTRATION

BEFORE THE

COMMITTEE ON GOVERNMENT REFORM

SUBCOMMITTEE ON GOVERNMENT MANAGEMENT, FINANCE AND
ACCOUNTABILITY

UNITED STATES HOUSE OF REPRESENTATIVES

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Good Afternoon Mr. Chairman, Mr. Towns, and Members of the Subcommittee:

Thank you for the opportunity to participate in today's hearing on the status of financial management at the General Services Administration (GSA). Sound financial practices are the bedrock upon which all successful enterprises are built and federal agencies are no exception. We appreciate your subcommittee's interest in this important subject.

Today, I would like to provide to you an overview of our office's assessment of GSA's initiatives to modernize its financial systems and practices. My comments will address three related but distinct areas: the GSA financial system framework; the 2005 audit of its agency's financial statement and related issues; and the status of steps taken by GSA to enhance financial controls to meet the new standards prescribed by the Office of Management and Budget in the revised edition of Circular A-123.

Financial Framework

GSA is a financially self-sustaining agency operating on fees collected for providing goods and services in support of other agencies' missions. Orders processed annually through its three revolving funds generate nearly 1.5 million disbursement actions totaling in excess of \$18.7 billion in expenditures.

Until five years ago, the core accounting system was hosted completely on a mainframe computer system that was built in the early 1970's and modified countless times in the intervening years. It was at this point when GSA decided to undertake a complete modernization of its financial and accounting systems to take advantage of new technology and web-based capabilities.

Central to the development of this new accounting system, known as Pegasys, is the importance of following an enterprise architecture framework with the goal of ensuring that each new component and each new business system that feeds data to Pegasys is fully standardized and compatible with the core accounting system. Such integration of the business line information systems with the financial information system is intended to reduce duplication, eliminate legacy systems, streamline processing, increase data accuracy and provide decision makers more accurate information more rapidly.

While the implementation of Pegasys is progressing, it has not been without its problems and delays. During the implementation of Pegasys, the agency breached

a cardinal rule in systems development by permitting one of the major GSA services to go on its own in developing a new management information system without regard for whether its structure would be compatible with Pegasys - it was not. After four years of development, the service's system was determined to be fatally flawed and had to be scrapped. Before its closing, the system experienced difficulties in sending accurate data to the accounting system. This caused the CFO's Office to expend substantial resources to correct problems not of its own doing, and divert resources away from the accounting system modernization project. If there is anything to learn from the GSA experience it is that once everyone agrees to a standard set of rules for development activities, major departures from those standards can not be permitted.

Generally, systems always cost more and take longer to develop than originally planned, and Pegasys is no exception. The original software purchased, while sold as an off-the-shelf solution for government agencies, needed extensive modifications before it could provide the accounting functions required in GSA's business environment. Making these additions not only caused original delays, it creates further delays until a fully integrated system is operational. While these modifications are now being managed effectively, the implementation of the new accounting system is well beyond its planned three-year implementation schedule. Other delays have been experienced in some of the related on-line systems being developed to fully implement the entire financial system framework. While the delays experienced have been unwelcome, we believe that in the recent past, GSA has been making reasonable progress in its modernization program and the glass should be viewed as half-full and continuing to fill.

2005 Financial Statement Audit

GSA was one of the first federal agencies to subject its financial statements to independent audit. Through 17 consecutive years, it had received unqualified or “clean” opinions on its primary accounts, individual funds and supporting schedules. While the 2005 financial statement audit again confirmed the fair presentation of GSA primary accounts and fund accountability, the auditors were unable to verify some of the financial information presented in the supporting statements. Specifically, the auditors disclaimed (were unable to express an opinion) on GSA’s statements of budgetary resources for the General Supply and the Federal Technology Funds.

Signs of a potential impairment surfaced during procurement audits conducted by our office in 2004. These reviews found a small number of high dollar value procurements made for the benefit of customer agencies but for which GSA acquisition personnel lacked the authority to award. Subsequent audit work found additional improper awards including several that breached appropriation requirements, including making use of expired funds.

Aware of the existence of deficiencies found in the internal audits, the external auditor intensified its review of the budgetary accounts during the 2005 cycle. These accounts are usually considered as low risk and are tested in a limited manner. Now with concerns that a larger problem could exist, more detailed testing was performed. The results of this examination found that for several years, the Federal Technology Service had been misapplying and miscounting for obligational authorities transferred to it from other agencies. These infractions ranged from neglecting to close-out and deobligate project accounts after project completion, to more serious matters such as frequently awarding contracts using expired funds. Because these inaccurate accounting practices had continued over the course of nearly 8 years, when identified and quantified, the misstated budgetary balances aggregated to over \$900 million, well over the technology fund’s materiality thresholds. Because the Federal Technology Service had taken over some business lines from the Federal Supply Service and processed those orders through the General Supply Fund, and amounts related to that fund were not accounted for separately, the impairment affected it as well. The cleanup also determined that other GSA accounts had inaccurate but lower amounts recorded that required adjustment.

While analysis of the accounts coupled with detailed statistical analysis established reasonable estimates of budgetary account balances for the end of 2005, the GSA's old legacy accounting system has no ability to re-create what the account balances looked like at the beginning of FY 2005. To express an opinion on an account, both the opening and closing balances must be verifiable. Accordingly, the auditors had no choice except to disclaim an opinion of the two statements of budgetary resources.

GSA has gone to great lengths to clean up this weakness across the agency. While no one welcomes any type of negative information linked to its financial statement audit, I believe the stumble experienced by GSA in 2005 will actually benefit the agency going forward. This episode required GSA to look more closely at its business transactions, how they are captured in the accounting system and what controls and oversight are needed to prevent future unfavorable situations. It also enabled the CFO's office to be granted approval to have more oversight of more of the detailed accounting information traditionally kept in the business units. This "early warning" ability will enable the CFO's office to detect issues before they become major problems.

In closing this segment, I wish to stress that at no time were the basic accounts or GSA's stewardship of assets under its management misrepresented or subject to undue risk. In fact, had GSA undergone a financial audit similar to those performed on a major U.S. corporation, the budgetary issues discussed above would not have been evaluated and it would have received an unqualified opinion.

Internal Controls and the A-123 Process

I am very pleased with the enhanced version of Circular A-123 issued by OMB. I am even more heartened by the steps taken by Deputy Administrator Bibb and Ms. Turco to place GSA on the fast track toward full implementation.

In prior years, GSA operated with a Management Control and Oversight Council, chaired by the Deputy Administrator with several members of the senior executive staff, and the Inspector General in an ex officio capacity. Mr. Bibb expanded the membership of the council to include all Commissioners, a Regional Administrator to represent the field offices, and the Chiefs of Finance, Human Resource, Acquisition, and Information Technology. He also expanded the charter of the council to include projects to improve the overall management of the agency.

GSA is following the Implementation Guide for OMB Circular A-123, Appendix A. GSA is adopting the five-step process presented in the guide. The steps are: (1) planning, (2) evaluation of controls at the entity level, (3) evaluation of controls at the process level, (4) testing at the transaction level, and (5) concluding, reporting and correcting deficiencies and weaknesses.

GSA has created a Senior Assessment Team, composed of senior management officials commissioned to provide leadership, oversight and accountability for GSA controls over financial reporting. The team reports to the Management Control and Oversight Council. It has the tasks of enhancing the internal control framework of the agency, promoting internal control awareness and determining assessment designs and methods to test to ensure controls are functioning as intended. The Office of Inspector General serves in an advisory capacity.

The Senior Assessment Team has established work groups composed of GSA associates and contractor employees from a public accounting firm trained in internal control testing. These teams are conducting assessments of internal controls in systems across the agency. The testing is expected to be completed in the next few weeks.

Beyond meeting the requirements of A-123, the CFO's office has seen this process as an opportunity to bring more standardization to business practices across the agency. In turn, this will facilitate the implementation of the new accounting system.

I believe the steps taken to meet the new OMB requirements will show that GSA is in the forefront of the agencies implementing the new measures.

Mr. Chairman, this completes my formal testimony. I would be pleased to respond to any questions you and the members of the subcommittee may have.